Commonwealth of Kentucky
Department of Labor
Office of Workers' Claims

"BULLETIN"

RE: Enhanced Surety Requirements for
Individual Self-Insured Employers
in Kentucky Jurisdiction

Pursuant to KRS 342.340(1) and 803 KAR 25:021, the Office of Workers' Claims requires each self-insured employer to secure payment of its workers' compensation obligations by providing an acceptable security. It is the responsibility of the Office of Workers' Claims to ensure that the security provided is adequate to fund the entire workers' compensation liability of an insolvent or former self-insured.
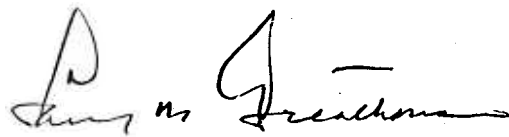
Recent defaults by self-insured employers have demonstrated the need to implement a method of calculation that ensures sufficient surety will be available in the event a self-insured employer is unable to make required payments. Therefore, the Office of Workers' Claims has implemented a new method of calculating surety that considers all relevant factors and will establish a more accurate amount for required surety.

Under the new method, the Office of Workers' Claims will enter the loss data for the employer into a computer model. This surety model will focus not only on known liability of open and closed claims, and value of awarded claims, but also on incurred but not reported claims, loss adjustment expenses, medical inflation and medical reserving practices which may increase ultimate liability in the event of a self-insured employer insolvency.

The required surety posting for 2005 will be the amount calculated under the new method plus the simulated premium. For 2004, the Office of Workers' Claims will calculate the surety pursuant to both the old and new methodology. If the methodology indicates a surety above that required under the prior methodology, the surety required to be posted will equal the amount calculated under the prior methodology plus 50 percent (50%) of the difference between the two calculations.

If you have any questions concerning this information, please contact Gary Davis at 502-564-5550, ext. 4452.

This 24th day of May, 2004.

Larry M. Greathouse